

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Auburn	County Bay County
Audit Date June 30, 2005	Opinion Date November 11, 2005	Date Accountant Report Submitted to State: 1/9/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

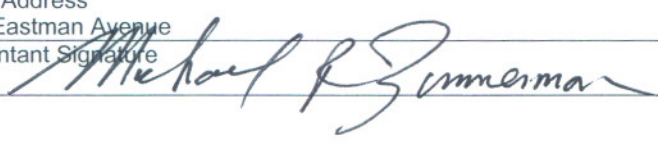
Certified Public Accountant (Firm Name)
Yeo & Yeo, P.C.

Street Address
6018 Eastman Avenue

City
Midland

State
MI

ZIP
48640

Accountant Signature


City of Auburn
Bay County, Michigan
Annual Financial Statements
and
Auditors' Report
June 30, 2005

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City of Auburn
List of Elected and Appointed Officials
June 30, 2005

City Commission

John McNally - Mayor

Richard Fletcher - Commissioner

Ann Machelski - Commissioner

B.J. Raab - Commissioner

William Reder - Commissioner

Cynthia Rhynard - Commissioner

James Zoller - Commissioner

Other Officers and Officials

JoElla Krantz – City Administrator

Lucille Wiesenauer – City Clerk/Treasurer

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Auburn
Auburn, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Auburn as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Auburn as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

November 11, 2005
Midland, Michigan

**CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The following discussion and analysis of the City of Auburn's financial performance presents management's overview of the City's financial activities for the year ended June 30, 2005. Please read it in conjunction with the City's basic financial statements, which begin immediately following this analysis. This annual financial report consists of four parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplemental Information and Other Supplemental Information.

Overview of the Basic Financial Statement

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* includes all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the City include: general government, public safety, streets, sanitation and recreation. The business-type activities of the City include: a water and sewer system and motor pool.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Downtown Development Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements. The fund financial statements provide more detailed information about the City's major funds individually. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Auburn maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Local Street Fund, Major Street Fund and the Road Revolving Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the General Fund and other major funds to demonstrate compliance with this budget.

Proprietary funds. The City of Auburn maintains three (3) proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activity. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Auburn uses an internal service fund to account for its fleet of vehicles and other equipment.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the City's major funds and other supplemental information concerning indebtedness information.

Analysis of the Government-Wide Financial Statements

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 1,655,525	\$ 1,481,268	\$ 397,929	\$ 406,923	\$ 2,053,454	\$ 1,888,191
Capital assets	<u>575,810</u>	<u>563,831</u>	<u>2,705,528</u>	<u>2,776,128</u>	<u>3,281,338</u>	<u>3,339,959</u>
Total assets	<u>2,231,335</u>	<u>2,045,099</u>	<u>3,103,457</u>	<u>3,183,051</u>	<u>5,334,792</u>	<u>5,228,150</u>
Liabilities						
Current liabilities	59,521	140,001	56,231	181,492	115,752	321,493
Long-term liabilities	<u>945,143</u>	<u>1,130,306</u>	<u>79,793</u>	<u>-</u>	<u>1,024,936</u>	<u>1,130,306</u>
Total liabilities	<u>1,004,664</u>	<u>1,270,307</u>	<u>136,024</u>	<u>181,492</u>	<u>1,140,688</u>	<u>1,451,799</u>
Net assets						
Invested in capital assets -						
Net of related debt	(308,622)	563,831	2,600,735	2,776,128	2,292,113	3,339,959
Restricted	2,968	137,384	-	-	2,968	137,384
Unrestricted	<u>1,532,325</u>	<u>73,577</u>	<u>366,698</u>	<u>225,431</u>	<u>1,899,023</u>	<u>299,008</u>
Total net assets	<u>\$ 1,226,671</u>	<u>\$ 774,792</u>	<u>\$ 2,967,433</u>	<u>\$ 3,001,559</u>	<u>\$ 4,194,104</u>	<u>\$ 3,776,351</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Auburn, assets exceeded liabilities by \$4,194,104 at the close of the most recent fiscal year. City of Auburn's increase in net assets for this fiscal year amounts to \$431,024.

The largest portion of the City's net assets (55%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any accumulated depreciation and related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets \$2,968 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,899,023 may be used to meet the City's ongoing obligations to citizens and creditors.

City's Changes in Net Assets:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue						
Charges for services	\$ 107,057	\$ 139,437	\$ 587,674	\$ 531,520	\$ 694,731	\$ 670,957
Operating grants and contributions	-	148,631	-	-	-	148,631
General revenue						
Property taxes	685,035	595,405	-	-	685,035	595,405
State-shared revenue	340,274	201,888	-	-	340,274	201,888
Interest	22,642	15,869	3,956	2,251	26,598	18,120
Miscellaneous	66,173	134,826	1,011	19,775	67,184	154,601
Transfers	(12,400)	21,164	12,400	(21,164)	-	-
Total revenue	1,208,781	1,257,220	605,041	532,382	1,813,822	1,789,602
Program expenses						
General government	168,578	211,083	-	-	168,578	211,083
Public safety	239,272	237,802	-	-	239,272	237,802
Public works	307,369	546,633	-	-	307,369	546,633
Community and economic development	6,611	11,018	-	-	6,611	11,018
Recreation and culture	74,623	71,374	-	-	74,623	71,374
Interest on long-term debt	54,570	67,728	-	-	54,570	67,728
Water and sewer	-	-	531,775	473,687	531,775	473,687
Total program expenses	851,023	1,145,638	531,775	473,687	1,382,798	1,619,325
Change in net assets	<u>\$ 357,758</u>	<u>\$ 111,582</u>	<u>\$ 73,266</u>	<u>\$ 58,695</u>	<u>\$ 431,024</u>	<u>\$ 170,277</u>

Governmental Activities. Governmental activities increased the City's net assets by \$357,758 accounting for 83% of the total growth in the net assets of the City.

City of Auburn Funds

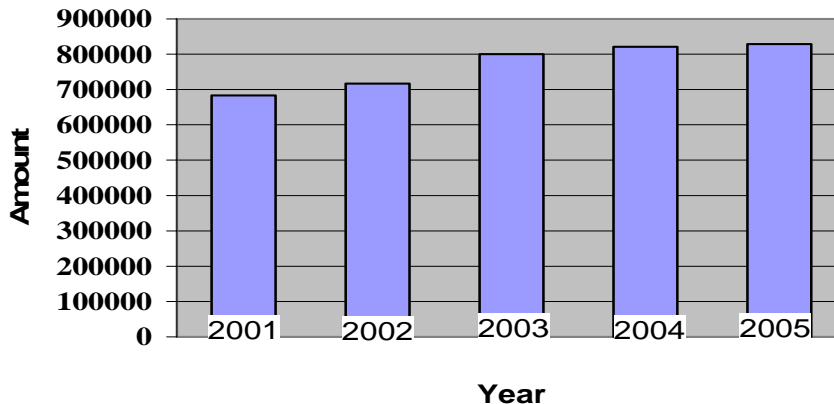
The fund financial statements provide detailed information about the most significant funds, not the City of Auburn as a whole. The City Commission creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2005.

General Fund

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increased fund balance of \$39,052 over 2004.

The General Fund is the chief operating fund of the City. As of the end of the fiscal year, total fund balance for the General Fund was \$828,514, an increase of \$6,975 over prior year balance, less than 1% increase over the previous year. Following is a chart of the General Fund fund balance trend over the last five years.

General Fund - Unreserved Fund Balance



Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The City uses these fund improvements for the City street system, along with contributions from General Fund. Major Street Fund balance had an increase of \$25,305 due mainly to the postponement of budgeted projects. The local street fund decreased \$8,380 due mainly to lower than budgeted transfers from the General Fund, which were partly offset due to the postponement of budgeted projects.

Road Revolving Fund

The city has a millage for road construction and improvements accounted for in this fund. The increase in fund balance of \$151,033 was budgeted in order to increase reserves for future projects.

Business-type activities. Business-type activities increased the City's net assets by \$73,266 accounting for 17% of the total growth in the City's net assets. The Water Fund continued to invest capital assets to replace its aging infrastructure. The Sewer Fund will continue to build capital reserves for future replacement and repairs of the Nine Mile Road pump station.

General Fund Budgetary Highlights

Budget and actual comparison statements are provided in the Budgetary Comparison Schedules for the General Fund and all major special revenue funds with annually appropriated budgets. These statements show the original budget, final budget, actual amounts, and the variances between actual and final budgeted amounts. Operating the City is a dynamic undertaking and budget amendments are approved throughout the year. Budgets are revised for a variety of reasons, such as unanticipated revenues or unforeseen expenditures. Over the course of the fiscal year the City Commission revised the budget two times. Significant changes were for the change in timing of sidewalk and street improvements in the City.

Capital Asset and Debt Administration

Capital assets. At June 30, 2005 the City had \$3,281,338 invested in capital assets, net, including buildings, equipment, park and recreation facilities and water and sewer lines.

Long-Term Debt. At June 30, 2005, the City of Auburn had total bonded debt outstanding of \$964,225. Additional information can be found in the Notes to the Financial Statements, Note 7.

Economic Factors

The General Operating Fund of the City is primarily reliant on distributions of state shared revenues and property taxes. State shared revenues have continued to decline. State revenues are at their lowest since 1970. At this writing, the State of Michigan's revenues are, once again, falling below projections. This may impact Auburn through further reductions in State revenue sharing. To date these revenue reductions have been masked because of our growth and increased property tax revenues. The City will continue to monitor revenues and expenditures to ensure the City maintains a balanced budget.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Administrator at 113 E. Elm Street, Auburn, Michigan 48611.

City of Auburn
Statement of Net Assets
June 30, 2005

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit
Assets				
Cash and cash equivalents	\$ 1,429,847	\$ 386,953	\$ 1,816,800	\$ 431,349
Receivables				
Taxes	17,233	-	17,233	-
Customers	8,653	61,657	70,310	-
Special assessments	34,591	-	34,591	-
Accrued interest and other	9,572	-	9,572	603
Due from other units of government	55,432	-	55,432	-
Internal balances	(10,814)	10,814	-	-
Due from other funds	4,911	-	4,911	-
Prepaid items	6,100	38,505	44,605	-
Advances to other funds	100,000	(100,000)	-	-
Capital assets, net	<u>575,810</u>	<u>2,705,528</u>	<u>3,281,338</u>	<u>157,128</u>
Total assets	<u>2,231,335</u>	<u>3,103,457</u>	<u>5,334,792</u>	<u>589,080</u>
Liabilities				
Checks written against future deposits	9,902	-	9,902	-
Accounts payable	22,609	53,632	76,241	-
Accrued and other liabilities	25,629	2,397	28,026	-
Due to other units of government	1,381	202	1,583	-
Noncurrent liabilities				
Due within one year	79,929	27,600	107,529	-
Due in more than one year	<u>865,214</u>	<u>52,193</u>	<u>917,407</u>	<u>-</u>
Total liabilities	<u>1,004,664</u>	<u>136,024</u>	<u>1,140,688</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	(308,622)	2,600,735	2,292,113	157,128
Restricted for:				
Debt	2,968	-	2,968	-
Unrestricted	<u>1,532,325</u>	<u>366,698</u>	<u>1,899,023</u>	<u>431,952</u>
Total net assets	<u>\$ 1,226,671</u>	<u>\$ 2,967,433</u>	<u>\$ 4,194,104</u>	<u>\$ 589,080</u>

See Accompanying Notes to Financial Statements

City of Auburn
Statement of Activities
For the Year Ended June 30, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Expenses								
Functions/Programs								
Primary government								
Governmental activities								
General government	\$ 168,578	\$ -	\$ -	\$ -	\$ (168,578)	\$ -	\$ (168,578)	\$ -
Public safety	239,272	2,087	-	-	(237,185)	-	(237,185)	-
Public works	307,369	104,105	-	-	(203,264)	-	(203,264)	-
Community and economic development	6,611	865	-	-	(5,746)	-	(5,746)	-
Recreation and culture	74,623	-	-	-	(74,623)	-	(74,623)	-
Interest on long-term debt	54,570	-	-	-	(54,570)	-	(54,570)	-
Total governmental activities	851,023	107,057	-	-	(743,966)	-	(743,966)	-
Business-type activities								
Sewer	222,564	292,008	-	-	-	69,444	69,444	-
Water	309,211	295,666	-	-	-	(13,545)	(13,545)	-
Total business-type activities	531,775	587,674	-	-	-	55,899	55,899	-
Total primary government	\$ 1,382,798	\$ 694,731	\$ -	\$ -	(743,966)	55,899	(688,067)	-
Component unit								
Downtown Development Authority	\$ 12,419	\$ -	\$ -	\$ -				(12,419)
General revenues								
Property taxes					685,035	-	685,035	154,204
State shared revenue					340,274	-	340,274	-
Unrestricted investment earnings					22,642	3,956	26,598	5,173
Miscellaneous					66,173	1,011	67,184	-
Transfers					(12,400)	12,400	-	-
Total general revenues and transfers					1,101,724	17,367	1,119,091	159,377
Change in net assets					357,758	73,266	431,024	146,958
Net assets - beginning of year					774,792	3,001,559	3,776,351	442,122
Prior period adjustment					94,121	(107,392)	(13,271)	-
Net assets - beginning of year (restated)					868,913	2,894,167	3,763,080	442,122
Net assets - end of year					\$ 1,226,671	\$ 2,967,433	\$ 4,194,104	\$ 589,080

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Balance Sheet
June 30, 2005

	Special Revenue Funds				Other Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Road Revolving		
Assets						
Cash and cash equivalents	\$ 680,857	\$ 101,302	\$ 25,113	\$ 322,048	\$ 16,256	\$ 1,145,576
Receivables						
Taxes	11,942	-	-	5,291	-	17,233
Customers	8,408	-	-	-	245	8,653
Special assessments	34,591	-	-	-	-	34,591
Accrued interest and other	9,498	-	-	74	-	9,572
Due from other units of government	25,548	18,572	11,312	-	-	55,432
Due from other funds	4,911	-	4,088	-	-	8,999
Prepaid items	4,309	561	606	-	-	5,476
Advances to other funds	100,000	-	-	-	-	100,000
Total assets	<u>\$ 880,064</u>	<u>\$ 120,435</u>	<u>\$ 41,119</u>	<u>\$ 327,413</u>	<u>\$ 16,501</u>	<u>\$ 1,385,532</u>
Liabilities						
Checks written against future deposits	\$ -	\$ -	\$ 9,902	\$ -	\$ -	\$ 9,902
Accounts payable	20,805	122	224	-	-	21,151
Accrued and other liabilities	8,266	1,579	151	-	-	9,996
Due to other funds	-	4,088	-	-	-	4,088
Due to other units of government	1,194	136	3	-	-	1,333
Deferred revenue	21,285	-	-	-	-	21,285
Total liabilities	<u>51,550</u>	<u>5,925</u>	<u>10,280</u>	<u>-</u>	<u>-</u>	<u>67,755</u>
Fund Balances						
Reserved for:						
Debt service	-	-	-	-	2,968	2,968
Unreserved, reported in:						
General fund	828,514	-	-	-	-	828,514
Special revenue funds	-	114,510	30,839	327,413	13,533	486,295
Total fund balances	<u>828,514</u>	<u>114,510</u>	<u>30,839</u>	<u>327,413</u>	<u>16,501</u>	<u>1,317,777</u>
Total liabilities and fund balances	<u>\$ 880,064</u>	<u>\$ 120,435</u>	<u>\$ 41,119</u>	<u>\$ 327,413</u>	<u>\$ 16,501</u>	<u>\$ 1,385,532</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2005

Total fund balances for governmental funds	\$ 1,317,777
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	287,278
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	21,285
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(15,083)
Compensated absences	(60,711)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(884,432)
Internal service funds are included as part of governmental activities.	<u>560,557</u>
Net assets of governmental activities	<u>\$ 1,226,671</u>

City of Auburn
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2005

		Special Revenue Funds			Other Governmental Funds	Governmental Funds Total
	General	Major Street	Local Street	Road Revolving		
Revenues						
Taxes	\$ 453,188	\$ -	\$ -	\$ 231,847	\$ -	\$ 685,035
Licenses and permits	21,062	-	-	-	857	21,919
State revenue sharing	191,453	101,106	40,783	-	-	333,342
Other state grants	-	2,218	4,714	-	-	6,932
Charges for services	104,113	-	-	-	-	104,113
Fines and forfeitures	1,089	-	-	-	-	1,089
Interest income	16,937	674	102	2,549	33	20,295
Rental income	3,875	-	-	-	-	3,875
Other revenue	20,946	-	-	-	-	20,946
Total revenues	<u>812,663</u>	<u>103,998</u>	<u>45,599</u>	<u>234,396</u>	<u>890</u>	<u>1,197,546</u>
Expenditures						
Current						
General government	185,943	-	-	-	-	185,943
Public safety	229,481	-	-	-	3,900	233,381
Public works	265,233	47,760	69,076	-	-	382,069
Community and economic development	6,611	-	-	-	-	6,611
Recreation and culture	63,026	-	-	-	-	63,026
Capital outlay	-	5,656	10,180	-	-	15,836
Debt service						
Principal retirement	-	-	-	-	74,929	74,929
Interest and fiscal charges	-	-	-	-	56,141	56,141
Total expenditures	<u>750,294</u>	<u>53,416</u>	<u>79,256</u>	<u>-</u>	<u>134,970</u>	<u>1,017,936</u>
Excess (deficiency) of revenues over expenditures	<u>62,369</u>	<u>50,582</u>	<u>(33,657)</u>	<u>234,396</u>	<u>(134,080)</u>	<u>179,610</u>
Other financing sources (uses)						
Transfers in	-	-	25,277	-	126,357	151,634
Transfers out	(55,394)	(25,277)	-	(83,363)	-	(164,034)
Total other financing sources and uses	<u>(55,394)</u>	<u>(25,277)</u>	<u>25,277</u>	<u>(83,363)</u>	<u>126,357</u>	<u>(12,400)</u>
Net change in fund balance	6,975	25,305	(8,380)	151,033	(7,723)	167,210
Fund balance - beginning of year	<u>821,539</u>	<u>89,205</u>	<u>39,219</u>	<u>176,380</u>	<u>24,224</u>	<u>1,150,567</u>
Fund balance - end of year	<u>\$ 828,514</u>	<u>\$ 114,510</u>	<u>\$ 30,839</u>	<u>\$ 327,413</u>	<u>\$ 16,501</u>	<u>\$ 1,317,777</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - Total governmental funds	\$ 167,210
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(23,698)
Capital outlay	77,931
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Special assessments	21,285
Expenses are recorded when incurred in the statement of activities	
Accrued interest	1,571
Compensated absences	1,559
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Repayments of long-term debt	74,929
Internal service funds are also included as governmental activities	<u>36,971</u>
Change in net assets of governmental activities	<u>\$ 357,758</u>

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Net Assets
June 30, 2005

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 230,796	\$ 156,157	\$ 386,953	\$ 284,271
Receivables				
Customers	23,832	37,825	61,657	-
Prepaid items	37,702	803	38,505	624
Total current assets	292,330	194,785	487,115	284,895
Noncurrent assets				
Capital assets, net	1,149,585	1,555,943	2,705,528	288,532
Total assets	1,441,915	1,750,728	3,192,643	573,427
Liabilities				
Current liabilities				
Accounts payable	37,108	16,524	53,632	1,458
Accrued and other liabilities	1,203	1,194	2,397	550
Due to other units of government	96	106	202	48
Current portion of noncurrent liabilities	27,600	25,000	52,600	-
Total current liabilities	66,007	42,824	108,831	2,056
Noncurrent liabilities				
Advances from other funds	-	75,000	75,000	-
Long-term debt net of current portion	52,193	-	52,193	-
Total noncurrent liabilities	52,193	75,000	127,193	-
Total liabilities	118,200	117,824	236,024	2,056
Net Assets				
Invested in capital assets, net of related debt	1,069,792	1,530,943	2,600,735	288,532
Unrestricted	253,923	101,961	355,884	282,839
Total net assets	\$ 1,323,715	\$ 1,632,904	2,956,619	\$ 571,371

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities

Net assets of business-type activities

See Accompanying Notes to Financial Statements

10,814
\$ 2,967,433

City of Auburn
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2005

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Operating revenue				
Customer fees	\$ 287,798	\$ 290,556	\$ 578,354	\$ -
Rental income	150	-	150	167,200
Other revenue	49	812	861	-
Total operating revenue	<u>287,997</u>	<u>291,368</u>	<u>579,365</u>	<u>167,200</u>
Operating expenses				
Personnel services	21,501	43,280	64,781	23,659
Supplies	2,353	13,109	15,462	18,558
Contractual services	144,376	174,692	319,068	664
Utilities	3,661	195	3,856	2,854
Repairs and maintenance	12,864	38,216	51,080	16,202
Other expenses	566	3,287	3,853	14,192
Depreciation	36,017	39,224	75,241	45,636
Total operating expenses	<u>221,338</u>	<u>312,003</u>	<u>533,341</u>	<u>121,765</u>
Operating income (loss)	<u>66,659</u>	<u>(20,635)</u>	<u>46,024</u>	<u>45,435</u>
Nonoperating revenue (expenses)				
Interest income	2,181	1,775	3,956	2,350
Interest expense	(2,998)	(6,250)	(9,248)	-
Total nonoperating revenues (expenses)	<u>(817)</u>	<u>(4,475)</u>	<u>(5,292)</u>	<u>2,350</u>
Income (loss) before contributions and transfers out	65,842	(25,110)	40,732	47,785
Capital contributions	4,210	5,110	9,320	-
Transfers in	-	12,400	12,400	-
Change in net assets	<u>70,052</u>	<u>(7,600)</u>	<u>62,452</u>	<u>47,785</u>
Net assets - beginning of year	1,361,055	1,640,504	3,001,559	528,703
Prior period adjustment	(107,392)	-	(107,392)	(5,117)
Net assets - beginning of year restated	<u>1,253,663</u>	<u>1,640,504</u>	<u>2,894,167</u>	<u>523,586</u>
Net assets - end of year	<u>\$ 1,323,715</u>	<u>\$ 1,632,904</u>	<u>2,956,619</u>	<u>\$ 571,371</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			10,814	
Change in net assets of business-type activities			<u>\$ 2,967,433</u>	

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	Equipment
Cash flows from operating activities				
Receipts from customers	\$ 286,891	\$ 299,007	\$ 585,898	\$ 167,200
Payments to suppliers	(187,547)	(192,340)	(379,887)	(51,935)
Payments to employees	(21,501)	(43,280)	(64,781)	(23,659)
Payments for interfund services used	(6,486)	(33,258)	(39,744)	-
Net cash provided by operating activities	71,357	30,129	101,486	91,606
Cash flows from noncapital financing activities				
Transfer from other funds	-	12,400	12,400	-
Repayment from other funds	-	(25,000)	(25,000)	-
Net cash used by noncapital financing activities	-	(12,600)	(12,600)	-
Cash flows from capital and related financing activities				
Capital contributions	4,210	5,110	9,320	-
Purchases/construction of capital assets	-	(4,641)	(4,641)	-
Principal and interest paid on long-term debt	(31,880)	(6,250)	(38,130)	-
Net cash used by capital and related financing activities	(27,670)	(5,781)	(33,451)	-
Cash flows from investing activities				
Interest received	2,181	1,775	3,956	2,350
Net increase in cash and cash equivalents	45,868	13,523	59,391	93,956
Cash and cash equivalents - beginning of year	184,928	142,634	327,562	190,315
Cash and cash equivalents - end of year	\$ 230,796	\$ 156,157	\$ 386,953	\$ 284,271
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 66,659	\$ (20,635)	\$ 46,024	\$ 45,435
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	36,017	39,224	75,241	45,636
Changes in assets and liabilities				
Receivables (net)	(1,106)	7,639	6,533	-
Prepaid items	(25,905)	(146)	(26,051)	(87)
Accounts payable	(5,159)	3,509	(1,650)	414
Accrued and other liabilities	755	432	1,187	160
Due to other units of government	96	106	202	48
Net cash provided by operating activities	\$ 71,357	\$ 30,129	\$ 101,486	\$ 91,606

See Accompanying Notes to Financial Statements

City of Auburn
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2005

	<u>Payroll</u>	<u>Current Tax Collection</u>
Assets		
Cash and cash equivalents	<u>\$ 7,590</u>	<u>\$ 4,911</u>
Liabilities		
Accounts payable	\$ 695	\$ -
Due to other funds	-	4,911
Due to other units of government	<u>6,895</u>	<u>-</u>
 Total liabilities	 <u>\$ 7,590</u>	 <u>\$ 4,911</u>

See Accompanying Notes to Financial Statements

City of Auburn
Notes to Financial Statements
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

City of Auburn is governed by an elected seven-member Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the City's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the Governing Board of the Downtown Development Authority are appointed by the City Commission. The budget of the Downtown Development Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the City of Auburn annual financial statements.

Jointly Governed Organizations

Auburn-Williams Fire Protection District – The City of Auburn and Williams Township jointly govern the Auburn-Williams Fire Protection District. The funding formula requires the City provide 30% and Williams Township 70% of the operational and building costs. The District has title to all property, plant and equipment. All of the financial operations of the District are recorded in the Auburn-Williams Fire Protection District.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial

City of Auburn
Notes to Financial Statements
June 30, 2005

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the resources of state gas and weight tax revenue that are restricted for use on Major and Local Streets.

The Road Revolving Fund accounts for taxes levied for road construction and improvements.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Additionally, the government reports the following:

The Building Inspection Fund is used to account for specific revenue derived from General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Debt Service Funds that record revenue and the payment of interest, principle and other expenditures on long term debt.

Internal Service Funds accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

Payroll and Current Tax Collection Fund accounts for payroll expenses and property tax and other deposits collected on behalf of other units and individuals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also

City of Auburn
Notes to Financial Statements
June 30, 2005

have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the governments Enterprise Funds, the Sewer and Water Funds, and the government's Internal Service Funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 15th of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the government totaled \$46,540,511, on which ad valorem taxes consisted of 10.0761 mills for operating purposes, .9239 for the Auburn drain and 5.0 mills for road repairs. This resulted in \$399,948 for operating expenses, \$42,846 for the Auburn drain, and \$231,848 for road repairs exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

City of Auburn
Notes to Financial Statements
June 30, 2005

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Roads	40 years
Other Infrastructure	20 to 40 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years

Compensated absences – It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which will be paid to employees upon separation from the City. Sick leave is paid only upon retirement and is limited to the lesser of one-half of the total accumulation or 60 days. Employees are paid all their accumulated vacation pay upon termination of employment for any reason. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the City's financial statements.

City of Auburn
Notes to Financial Statements
June 30, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Administrator is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

NOTE 3 - DEPOSITS AND INVESTMENTS

Credit risk – State statutes and the City's investment policy authorize the City to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the local unit is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk – The City has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$ 900,040 of the City's bank balance of \$ 2,274,402 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	<u>Due After One Year</u>	<u>Fund</u>
Primary government		
Special assessments	<u>\$ 21,285</u>	General Fund

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
Special assessments	<u>\$ 21,285</u>

City of Auburn
Notes to Financial Statements
June 30, 2005

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 61,570	\$ -	\$ -	\$ 61,570
Capital assets being depreciated				
Land improvements	209,385	-	-	209,385
Infrastructure	-	67,512	-	67,512
Buildings, additions and improvements	215,372	-	-	215,372
Machinery and equipment	631,639	10,419	-	642,058
Vehicles	89,793	-	-	89,793
Total capital assets being depreciated	1,146,189	77,931	-	1,224,120
Less accumulated depreciation for				
Land improvements	172,768	6,107	-	178,875
Infrastructure	-	1,688	-	1,688
Buildings, additions and improvements	93,768	7,667	-	101,435
Machinery and equipment	305,619	47,983	-	353,602
Vehicles	68,391	5,889	-	74,280
Total accumulated depreciation	640,546	69,334	-	709,880
Net capital assets being depreciated	505,643	8,597	-	514,240
Governmental activities capital assets, net	\$ 567,213	\$ 8,597	\$ -	\$ 575,810
Business-type activities				
Capital assets not being depreciated				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	-	4,641	-	4,641
Total capital assets not being depreciated	36,000	4,641	-	40,641
Capital assets being depreciated				
Water system	2,097,512	-	-	2,097,512
Sewer system	1,804,939	-	-	1,804,939
Total capital assets being depreciated	3,902,451	-	-	3,902,451
Less accumulated depreciation for				
Water system	506,986	39,224	-	546,210
Sewer system	655,337	36,017	-	691,354
Total accumulated depreciation	1,162,323	75,241	-	1,237,564
Net capital assets being depreciated	2,740,128	(75,241)	-	2,664,887
Business-type capital assets, net	\$ 2,776,128	\$ (70,600)	\$ -	\$ 2,705,528

Capital assets activity of the component unit for the current year were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit				
Capital assets not being depreciated				
Land	\$ 13,000	\$ -	\$ -	\$ 13,000
Capital assets being depreciated				
Land improvements	-	12,581	-	12,581
Buildings, additions and improvements	53,860	80,611	-	134,471
Total capital assets being depreciated	53,860	93,192	-	147,052
Less accumulated depreciation for				
Land improvements	-	503	-	503
Buildings, additions and improvements	-	2,421	-	2,421
Total accumulated depreciation	-	2,924	-	2,924
Net capital assets being depreciated	53,860	90,268	-	144,128
Component unit capital assets, net	\$ 66,860	\$ 90,268	\$ -	\$ 157,128

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 3,731
Public safety	5,891
Public works	2,479
Recreation and culture	11,597

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets

Total governmental activities 69,334

Business-type activities	
Sewer	36,017
Water	39,224

Total business-type activities 75,241

Total primary government \$ 144,575

City of Auburn
Notes to Financial Statements
June 30, 2005

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Local Street	Major Street Fund	\$ 4,088
Internal Service Fund	General Fund	10,814
		<u>\$ 14,902</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The composition of due to/from primary government and Fiduciary Fund is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Current Tax Collection	<u>\$ 4,911</u>

Advances between funds

<u>Advance to</u>	<u>Advance from</u>	<u>Amount</u>
General Fund	Water Fund	<u>\$ 100,000</u>

The advance was made for water main improvements. Annual principal payments of \$25,000, plus 5% annual interest will be made until the advance is paid in full in 2009.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 42,994
General Fund	Water Fund	12,400
Major Street Fund	Local Street Fund	25,277
Road Revolving Fund	Other governmental funds	83,363
		<u>\$ 164,034</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

City of Auburn
Notes to Financial Statements
June 30, 2005

NOTE 7 – LONG TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	<u>Maturity Date</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities								
Bonds payable								
Auburn Drain Contract	2013	5.90 - 6.00%	\$29,929	\$ 269,361	\$ -	\$ 29,929	\$ 239,432	\$ 29,929
Transportation Bonds	2015	5.30 - 5.60%	\$ 35,000 - \$ 60,000	465,000	-	30,000	435,000	35,000
General Obligation Bonds	2015	5.30 - 5.60%	\$ 15,000 - \$ 25,000	225,000	-	15,000	210,000	15,000
Total bonds payable				959,361	-	74,929	884,432	79,929
Compensated absences				62,270	-	1,559	60,711	-
Total governmental activities				<u>\$ 1,021,631</u>	<u>\$ -</u>	<u>\$ 76,488</u>	<u>\$ 945,143</u>	<u>\$ 79,929</u>
Business-type activities								
Bonds payable								
Bay County Sewer Bonds	2008	5.50%	\$24,593 - \$27,600	<u>\$ 108,675</u>	<u>\$ -</u>	<u>\$ 28,882</u>	<u>\$ 79,793</u>	<u>\$ 27,600</u>

City of Auburn
Notes to Financial Statements
June 30, 2005

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 79,929	\$ 48,311	\$ 27,600	\$ 4,389
2007	79,929	44,403	27,600	2,871
2008	84,929	40,204	24,593	1,353
2009	89,929	35,684	-	-
2010	89,929	30,833	-	-
2011-2015	<u>459,787</u>	<u>75,094</u>	<u>-</u>	<u>-</u>
	<u>\$ 884,432</u>	<u>\$ 274,529</u>	<u>\$ 79,793</u>	<u>\$ 8,613</u>

NOTE 8 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined benefit pension plan

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report

may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees was established with the government and requires a contribution from the employees of 3 percent of gross wages for the first \$4,200 of wages earned and 5% thereafter, for full time employees.

Annual pension costs – For year ended 2005, the government's annual pension cost of \$31,619 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 4.5 percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2004 follows:

	2004	2003	2002
Annual pension cost	\$ 31,619	\$ 25,017	\$ 24,070
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,094,054	1,013,511	924,345
Actuarial accrued liabilities	1,306,460	1,211,283	1,113,114
Unfunded AAL	212,406	197,772	188,769
Funded ratio	84%	84%	83%
Covered payroll	327,134	307,741	292,774
UAAL as a percentage of covered payroll	65%	64%	64%

City of Auburn
Notes to Financial Statements
June 30, 2005

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

The June 30, 2004 net assets of the governmental activities, Sewer Fund and Internal Service Fund have been restated to account for the following items.

Governmental Activities

Net assets - beginning of year	\$ 774,792
Sewer Fund debt	108,675
Depreciation expense	8,500
Reclassified 1980 Sewage Disposal Bond Debt Fund	(1,283)
Internal Service Fund accumulated depreciation	(5,117)
Accrued interest	<u>(16,654)</u>
Net assets - beginning of year restated	<u>\$ 868,913</u>

Sewer Fund

Net assets - beginning of year	\$ 1,361,055
Reclassified 1980 Sewage Disposal Bond Debt Fund	1,283
Sewer fund debt	<u>(108,675)</u>
Net assets - beginning of year restated	<u>\$ 1,253,663</u>

Internal Service Fund

Net assets - beginning of year	\$ 528,703
Accumulated depreciation	<u>(5,117)</u>
Net assets - beginning of year restated	<u>\$ 523,586</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 444,000	\$ 443,045	\$ 443,532	\$ 487
Penalties and interest	3,000	3,800	3,974	174
Administration fee	4,800	4,800	5,682	882
Licenses and permits	20,800	20,800	21,062	262
State revenue sharing	194,000	191,000	191,453	453
Charges for services	101,500	103,500	104,113	613
Fines and forfeitures	1,000	1,000	1,089	89
Interest income	10,000	10,000	16,937	6,937
Rental income	4,000	4,000	3,875	(125)
Other revenue	93,742	42,171	20,946	(21,225)
Total revenues	<u>876,842</u>	<u>824,116</u>	<u>812,663</u>	<u>(11,453)</u>
Expenditures				
General government				
City commission	5,430	5,430	3,935	(1,495)
Manager	89,175	79,300	75,573	(3,727)
Audit	2,200	2,200	1,872	(328)
Board of review	500	500	349	(151)
Clerk/Treasurer	59,120	49,645	45,353	(4,292)
Assessor	14,100	17,200	16,094	(1,106)
Elections	8,565	12,465	12,204	(261)
Buildings and grounds	41,275	41,275	30,563	(10,712)
Attorney	2,500	2,500	-	(2,500)
Total general government	<u>222,865</u>	<u>210,515</u>	<u>185,943</u>	<u>(24,572)</u>
Public safety				
Police	184,300	184,300	173,291	(11,009)
Fire department	56,000	56,190	56,190	-
Total public safety	<u>240,300</u>	<u>240,490</u>	<u>229,481</u>	<u>(11,009)</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public works				
Department of public works	\$ 60,800	\$ 55,925	\$ 38,669	\$ (17,256)
Sidewalks	135,725	111,650	106,759	(4,891)
Street lighting	22,000	22,000	20,616	(1,384)
Sanitary land fill	99,000	101,000	99,189	(1,811)
Total public works	<u>317,525</u>	<u>290,575</u>	<u>265,233</u>	<u>(25,342)</u>
Community and economic development				
Planning	6,600	9,300	5,517	(3,783)
Zoning	900	900	1,094	194
Total community and economic development	<u>7,500</u>	<u>10,200</u>	<u>6,611</u>	<u>(3,589)</u>
Recreation and culture				
Parks and recreation	69,125	69,125	63,026	(6,099)
Other functions				
Contingency	3,000	3,000	-	(3,000)
Transfers out	56,150	56,150	55,394	(756)
Total expenditures	<u>916,465</u>	<u>880,055</u>	<u>805,688</u>	<u>(74,367)</u>
Excess (deficiency) of revenues over expenditures	(39,623)	(55,939)	6,975	62,914
Fund balance - beginning of year	821,539	821,539	821,539	-
Fund balance - end of year	<u>\$ 781,916</u>	<u>\$ 765,600</u>	<u>\$ 828,514</u>	<u>\$ 62,914</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 100,000	\$ 100,000	\$ 101,106	\$ 1,106
Other state grants	-	-	2,218	2,218
Interest income	500	500	674	174
Total revenues	100,500	100,500	103,998	3,498
Expenditures				
Current				
Public works	66,235	66,235	47,760	(18,475)
Capital outlay	-	50,000	5,656	(44,344)
Transfers out	25,000	25,000	25,277	277
Total expenditures	91,235	141,235	78,693	(62,542)
Excess of revenues (deficiency) over expenditures	9,265	(40,735)	25,305	66,040
Fund balance - beginning of year	89,205	89,205	89,205	-
Fund balance - end of year	\$ 98,470	\$ 48,470	\$ 114,510	\$ 66,040

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 41,000	\$ 41,000	\$ 40,783	\$ (217)
Other state grants	-	-	4,714	4,714
Interest income	100	100	102	2
Transfers in	25,000	75,000	25,277	(49,723)
Total revenues	66,100	116,100	70,876	(45,224)
Expenditures				
Current				
Public works	82,975	82,475	69,076	(13,399)
Capital outlay	-	50,000	10,180	(39,820)
Total expenditures	82,975	132,475	79,256	(53,219)
Excess of revenues (deficiency) over expenditures	(16,875)	(16,375)	(8,380)	7,995
Fund balance - beginning of year	39,219	39,219	39,219	-
Fund balance - end of year	\$ 22,344	\$ 22,844	\$ 30,839	\$ 7,995

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Road Revolving Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 231,000	\$ 231,000	\$ 231,847	\$ 847
Interest income	<u>2,000</u>	<u>2,000</u>	<u>2,549</u>	<u>549</u>
Total revenues	<u>233,000</u>	<u>233,000</u>	<u>234,396</u>	<u>1,396</u>
Expenditures				
Current				
Public works	25	25	-	(25)
Transfers out	<u>83,850</u>	<u>83,850</u>	<u>83,363</u>	<u>(487)</u>
Total expenditures	<u>83,875</u>	<u>83,875</u>	<u>83,363</u>	<u>(512)</u>
Excess of revenues over expenditures	149,125	149,125	151,033	1,908
Fund balance - beginning of year	<u>176,380</u>	<u>176,380</u>	<u>176,380</u>	<u>-</u>
Fund balance - end of year	<u>\$ 325,505</u>	<u>\$ 325,505</u>	<u>\$ 327,413</u>	<u>\$ 1,908</u>

City of Auburn
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Building Inspection	2000 Midland Road Bonds	2000 Michigan Transportation Bonds	1992 Auburn Drain	
Assets					
Cash and cash equivalents	\$ 13,288	\$ 20	\$ 20	\$ 2,928	\$ 16,256
Receivables					
Customers	245	-	-	-	245
Total assets	<u>\$ 13,533</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 2,928</u>	<u>\$ 16,501</u>
Fund Balances					
Reserved for:					
Debt service	\$ -	\$ 20	\$ 20	\$ 2,928	\$ 2,968
Unreserved	<u>13,533</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,533</u>
Total fund balances	<u>13,533</u>	<u>20</u>	<u>20</u>	<u>2,928</u>	<u>16,501</u>
Total liabilities and fund balances	<u>\$ 13,533</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 2,928</u>	<u>\$ 16,501</u>

City of Auburn
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Building Inspection	2000 Midland Road Bonds	2000 Michigan Transportation Bonds	1992 Auburn Drain	
Revenues					
Licenses and permits	\$ 857	\$ -	\$ -	\$ -	\$ 857
Interest income	29	-	-	4	33
Total revenues	886	-	-	4	890
Expenditures					
Current					
Public safety	3,900	-	-	-	3,900
Debt service					
Principal retirement	-	15,000	30,000	29,929	74,929
Interest and fiscal charges	-	12,605	25,758	17,778	56,141
Total expenditures	3,900	27,605	55,758	47,707	134,970
Excess (deficiency) of revenues over expenditures	(3,014)	(27,605)	(55,758)	(47,703)	(134,080)
Other financing sources					
Transfers in	-	27,605	55,758	42,994	126,357
Net change in fund balance	(3,014)	-	-	(4,709)	(7,723)
Fund balance - beginning of year	16,547	20	20	7,637	24,224
Fund balance - end of year	\$ 13,533	\$ 20	\$ 20	\$ 2,928	\$ 16,501

City of Auburn
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 154,204	\$ 154,204
Interest income	-	-	5,173	5,173
	<u>-</u>	<u>-</u>	<u>159,377</u>	<u>159,377</u>
Expenditures				
Current				
Community and economic development	7,900	7,900	4,364	(3,536)
Capital outlay	<u>104,700</u>	<u>104,700</u>	<u>98,323</u>	<u>(6,377)</u>
	<u>112,600</u>	<u>112,600</u>	<u>102,687</u>	<u>(9,913)</u>
Total expenditures				
	<u>112,600</u>	<u>112,600</u>	<u>102,687</u>	<u>(9,913)</u>
Excess (deficiency) of revenues over expenditures	(112,600)	(112,600)	56,690	169,290
Fund balance - beginning of year	<u>375,262</u>	<u>375,262</u>	<u>375,262</u>	<u>-</u>
Fund balance - end of year	<u>\$ 262,662</u>	<u>\$ 262,662</u>	<u>\$ 431,952</u>	<u>\$ 169,290</u>

City of Auburn
Component Unit - Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - Total governmental funds	\$ 56,690
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Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(2,924)
Capital outlay	<u>93,192</u>

Change in net assets of governmental activities	<u>\$ 146,958</u>
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City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities	5.90%	2006	\$ 29,929	\$ 7,603	\$ 7,063	\$ 44,595
Auburn Drain Contract	6.00%	2007	29,929	6,285	6,285	42,499
	6.00%	2008	29,929	5,387	5,387	40,703
	6.00%	2009	29,929	4,489	4,489	38,907
	6.00%	2010	29,929	3,591	3,591	37,111
	6.00%	2011	29,929	2,694	2,694	35,317
	6.00%	2012	29,929	1,796	1,796	33,521
	6.00%	2013	29,929	898	898	31,725
			<u>\$ 239,432</u>	<u>\$ 32,743</u>	<u>\$ 32,203</u>	<u>\$ 304,378</u>
 Transportation Bonds	5.30%	2006	\$ 35,000	\$ 11,528	\$ 11,528	\$ 58,056
	5.35%	2007	35,000	10,700	10,700	56,400
	5.40%	2008	35,000	9,855	9,855	54,710
	5.45%	2009	40,000	8,993	8,993	57,986
	5.50%	2010	40,000	7,975	7,975	55,950
	5.50%	2011	45,000	6,875	6,857	58,732
	5.55%	2012	45,000	5,689	5,689	56,378
	5.55%	2013	45,000	4,440	4,440	53,880
	5.60%	2014	55,000	3,220	3,220	61,440
	5.60%	2015	60,000	1,680	1,380	63,060
			<u>\$ 435,000</u>	<u>\$ 70,955</u>	<u>\$ 70,637</u>	<u>\$ 576,592</u>

City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
General Obligation Bonds	5.30%	2006	\$ 15,000	\$ 5,565	\$ 5,565	\$ 26,130
	5.35%	2007	15,000	5,216	5,216	25,432
	5.40%	2008	20,000	4,860	4,860	29,720
	5.45%	2009	20,000	4,360	4,360	28,720
	5.50%	2010	20,000	3,850	3,850	27,700
	5.50%	2011	20,000	3,300	3,300	26,600
	5.55%	2012	25,000	2,775	2,775	30,550
	5.55%	2013	25,000	2,081	2,081	29,162
	5.60%	2014	25,000	1,400	1,400	27,800
	5.60%	2015	25,000	700	700	26,400
			<u>\$ 210,000</u>	<u>\$ 34,107</u>	<u>\$ 34,107</u>	<u>\$ 278,214</u>
Business-type Activities	5.50%	2006	\$ 27,600	\$ 2,194	\$ 2,194	\$ 31,989
Bay County Sewer Bonds	5.50%	2007	27,600	1,435	1,435	30,471
	5.50%	2008	24,593	676	676	25,946
			<u>\$ 79,793</u>	<u>\$ 4,306</u>	<u>\$ 4,306</u>	<u>\$ 88,406</u>



To The City Council
City of Auburn
Auburn, Michigan

In planning and performing our audit of the financial statements of City of Auburn for the year ended June 30, 2005, we considered the City's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 11, 2005, on the financial statements of City of Auburn.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yeo & Yeo, P.C.

Midland, Michigan
November 11, 2005

PETTY CASH

Checks written to replenish petty cash are written to the order of “petty cash”. A check written to “cash” can be cashed by any individual and this creates a potential for misappropriation of the Organization’s assets.

Recommendation

We recommend checks to replenish petty cash to be made out to a specific individual, preferably someone other than the individual responsible for reconciliation of the account.

RECEIPTS

Check payments received at the City are not immediately stamped “For Deposit Only”. This is only done before deposit is taken to the bank.

Recommendation

Restricted endorsement should be placed on check remittances immediately upon receipt to prevent a potential misappropriation of Organization’s assets.

BANK STATEMENTS

Currently bank statements are not received by the appropriate level of management or a board member and reviewed prior to routing for reconciliation. Bank statements are received directly by the Clerk/Treasurer. Since the Clerk/Treasurer is also involved in the purchasing, receiving, check preparation, cash receipts and accounts payable, this is not considered optimal.

Recommendation

We understand that the number of employees is very limited, but to better segregate duties we recommend that the City Administrator receives unopened bank statements directly from the bank and reviews all cancelled checks and the monthly activity before the reconciliation.

COUNCIL MEETING MINUTES

Council minutes are currently not stored in an electronic format. During the audit time was spent trying to locate some board minutes, which were misfiled.

Recommendation

Electronic copy of each month’s Council minutes should be stored on a computer or another storage media. Minutes serve as the only documentation of various discussions and decisions made by the City Council and are required documentation to be kept by the City government.